

August 18, 1975.

THE PENSION COMMISSION OF ONTARIO

PRELIMINARY REPORT ON THE FUNDED STATUS OF  
CERTAIN PENSION PLANS REGISTERED WITH THE  
PENSION COMMISSION OF ONTARIO

The purpose of this study is to provide an indication of the extent of funding in private pension plans. While recognising that the study has important limitations, both as to the survey coverage and the systems surveyed, the Commission has decided to publish this preliminary report so that the information may be available to interested people at an early date.

Coverage

The study covers a selection of uninsured pension plans in the private sector which provide pensions on a defined benefit basis and are registered under The Pension Benefits Act of Ontario. A list was prepared of all defined benefit uninsured pension plans registered in Ontario, excluding pension plans sponsored by the government of Canada, the government of Ontario, municipalities and government agencies. Uninsured pension plans are taken to include trustee plans with corporate or individual trustees, together with segregated funds and deposit administration arrangements with insurance companies. The universe, as defined above, includes 1,487 trustee plans, 582 segregated funds and 495 deposit administration funds for a total of 2,564. This preliminary report, however, excludes segregated funds and deposit funds and is based on the data obtained from the valuation reports of the first 943 trustee plans registered by the Commission. It is the intention of the Commission in due course to complete the study of all the 2,564 uninsured plans filed with the Commission.







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Pension plans registered with the Commission are given a registration number and the 943 plans in this preliminary survey were chosen from the register of trustee plans by starting at the lowest number and proceeding consecutively through the register. While the plans were not chosen by any recognised sampling technique, the Commission has no reason to believe that the survey results are seriously biased. The final report will include all active pension plans as defined above.

#### Data Surveyed

The data for this study was obtained from the latest actuarial report filed with the Commission and from the accompanying cost certificate. The study therefore includes actuarial reports from 1971, 1972 and 1973. The form used internally for compiling data is shown in Exhibit "A". The survey includes information obtained from actuarial reports using an accrued benefit valuation method (unit credit) and those using a projected valuation method. It was decided that for those reports using the projected method, the liabilities in the survey would be taken as total liabilities reduced by the value of future normal contributions. In other words, the total liabilities shown in this survey were arrived at by adding the unfunded liabilities and/or experience deficiencies shown in the cost certificate or in the report to the value placed on the assets in the report.

It is well recognised that valuations on accrued benefit methods and projected benefit methods are not fully comparable and that very different sets of assumptions have been used in different reports.



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In many valuation reports the assets in the valuation balance sheet were not taken at either book value or market value, but at an adjusted or actuarial value, which sometimes included accrued interest, amounts due but unpaid and other items. In this study, the surplus or unfunded liability as shown in the actuary's report, whether or not the actuary used an adjusted value of assets, has been shown. In Table 2, the value of assets at book value and at market value has been compared with the value shown in the valuation report.

A number of valuation reports did not indicate the number of active employees covered by the plan at the date of valuation. Other information (annual reports) filed with the Commission was used to determine this information.

In spite of these weaknesses, it is felt that the information so far assembled and tabulated will be of considerable interest.

#### Survey Results

The survey results are shown in Tables 1 to 4, from which the following salient conclusions have been extracted.

Out of 943 plans surveyed, 301 (32%) reported a surplus and 642 (68%) reported an unfunded liability, that is an "initial unfunded liability" and/or an "experience deficiency" as defined in the Regulation under The Pension Benefits Act. By number of employees, 16% were in plans with a surplus and 84% in plans with an unfunded liability, suggesting that surplus more frequently occurs in small than in large plans.





	<u>Plans reporting a surplus</u>	<u>Plans reporting an unfunded liability</u>	<u>All plans surveyed</u>
Number of plans surveyed	301 (32%)	642 (68%)	943
Number of employees covered	77,260 (16%)	406,770 (84%)	484,030
<u>Funded Status</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Total liabilities	446,760 (11%)	3,495,954 (89%)	3,942,714
Assets as shown in actuarial report	<u>504,595 (18%)</u>	<u>2,375,103 (82%)</u>	<u>2,879,698</u>
	57,835		57,835
	<u>                    </u>	<u>1,120,851</u>	<u>1,120,851</u>

Overall, the plans have assets equal to 73% of the liabilities. The funding ratio for plans in a surplus position is 113% and for plans in an unfunded liability position is 68%. It is important to note that this does not imply that plans with an unfunded liability could only meet 68% of the earned pensions if the plans were wound up, since many valuations are on a projected basis, or allow for future salary and wage increases or are otherwise conservative. A much higher percentage of the accrued benefits would be covered on winding up of the plans, particularly in the case of final average earnings pension plans. Thus if the plan termination insurance on the lines of the United States system were to be adopted in Canada, it would appear that, based on this preliminary review, the amounts needed to be covered by insurance in order to protect employees in the event of plan termination would be considerably less than the unfunded liability shown above.

The average liability per employee is \$8,146 and the average asset is \$5,949. The average surplus per employee in plans that have a surplus is \$749 and the average unfunded liability per employee in plans that have an unfunded liability is \$2,755.







Of the unfunded liability, \$1,099 million is "initial unfunded liability" (to be liquidated by 1989), and \$22 million is "experience deficiency" (to be liquidated within 5 years of the valuation date).

The following Table shows the annual payments required under the plans included in this study. Employee members of these plans are at present paying about one-seventh of the annual cost. It should be noted that the distribution of contributory and non-contributory pension plans in this study does not compare with the national surveys done by Statistics Canada and the one-seventh employee contribution relates only to this study.

<u>Annual contributions</u>	<u>Total Payments</u>	<u>Average per employee</u>
	<u>\$000</u>	<u>\$</u>
Employer current service	226,061	467
Employer: initial unfunded liability	95,664	198
Employer: experience deficiency	<u>6,205</u>	<u>12</u>
Total employer	327,930	677
Employee contributions	<u>52,137</u>	<u>108</u>
Total contributions	<u>380,067</u>	<u>785</u>

An analysis of the liability by type of pension plan shows that the liability per member is greatest in final average salary plans. It is also greater in the plans showing an unfunded liability than in those showing a surplus.







Average Total Liability (unfunded & funded) per Member

<u>Type of Plan</u>	<u>Plans showing a surplus</u>	<u>Plans showing an unfunded liability</u>	<u>All Plans</u>
Career average	\$ 6,593	\$ 7,430	\$ 7,135
Final average	10,014	11,438	11,329
Flat benefit	1,561	7,452	6,978
Composite	3,538	9,204	8,107
All types	5,783	8,594	8,146

Striking differences are shown in the surplus and unfunded liability per member between different types of pension plan. The large unfunded liability of flat benefit types is no doubt due mainly to the frequency with which such plans are negotiated upwards, creating new liabilities.

Surplus or Unfunded Liability per Member

	<u>Surplus</u>	<u>Initial Unfunded Liability</u>	<u>Experience Deficiency</u>	<u>Unfunded Liability</u>
Career Average	781	\$1,444	\$ 29	\$1,473
Final Average	1,333	2,031	133	2,164
Flat benefit	379	3,737	23	3,760
Composite	507	1,326	32	1,358
All types	749	2,700	55	2,755

The assets shown in the many actuarial reports are not taken at book value (cost price) or market value but at an adjusted or actuarial value. They often also include receivables, accrued interest and miscellaneous items which are not included in the book value or market value. A comparison of the asset values used in the actuarial reports with book and market values follows:





	<u>\$000</u>
Assets as reported, including receivables, accrued interest, etc.	2,879,698
Book value	2,750,811
Market value	2,840,962

Fuller details are shown in the tables which follow.





## INFORMATION SHEET

Sheet No.

## STUDY - UNFUNDED LIABILITIES

Plan Identification

CORPORATE & INDIVIDUAL TRUSTEED PLANSC-

Line No.	Information Required	Valuation Report as at / /	Valuation Report as at / /	Valuation Report as at / /
1	Type of Plan			
2	Financing			
3	No. of Members			
4				
5	<u>Total Liabilities</u>	\$		
6	<u>Assets</u> - Book	\$		
7	- Market	\$		
8	- Act. Value	\$		
9	<u>Unfunded Liab. or Surplus</u>			
10	- Surplus	\$		
11	- Unfunded Liab.	\$		
12	- Exp. Def.	\$		
13				
14	Method			
15				
16	<u>Spec. Payments</u>			
	- I.U.L.	\$		
17	- Exp. Def.	\$		
18	<u>Current Costs</u>			
19	- Employer	\$		
20	- Employee	\$		
21				
22	Payroll - Active Members	\$		

Codes: Line 1 - Benefit Formula

1. Career Average
2. Final Pay
3. Flat Benefit
4. Composite

Line 2 - Financing

1. Contributory
2. Non-Contributory

Line 14 - Method

1. Projected
2. Accrued





TABLE 1

Funded Status of 943 Trusteed Pension Plans

Based on information contained in the latest actuarial valuation report -  
all dollar figures in thousands

	<u>Plans showing a surplus</u>	<u>Plans showing an unfunded liability</u>	<u>Total</u>
<u>All Plans Surveyed</u>			
Number of Plans surveyed	301	642	943
Number of Employees covered	77260	406770	484030
<u>Funded Status:</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Total liabilities	\$446,760	\$3,495,954	\$3,942,714
Total assets	<u>504,595</u>	<u>2,375,103</u>	<u>2,879,698</u>
Surplus	\$ 57,835		\$ 57,835
Unfunded liability	<u>                    </u>	<u>\$ 1,120,851</u>	<u>\$ 1,120,851</u>
<u>Career Average Plans</u>			
Number of Plans surveyed	199	206	405
Number of Employees covered	48143	88354	136497
<u>Funded Status:</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Total liabilities	\$ 317,384	\$ 656,518	\$ 973,902
Total assets	<u>354,975</u>	<u>526,360</u>	<u>881,335</u>
Surplus	\$ 37,591		\$ 37,591
Unfunded liability	<u>                    </u>	<u>\$ 130,158</u>	<u>\$ 130,158</u>
<u>Final Average Pay Plans</u>			
Number of Plans surveyed	39	212	251
Number of Employees covered	9275	111938	121213
<u>Funded Status:</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Total liabilities	\$ 92,881	\$ 1,280,381	\$1,373,262
Total assets	<u>105,245</u>	<u>1,038,153</u>	<u>1,143,398</u>
Surplus	\$ 12,364		\$ 12,364
Unfunded liability	<u>                    </u>	<u>\$ 242,228</u>	<u>\$ 242,228</u>





TABLE 1 (continued)

	Plans showing a surplus	Plans showing an unfunded liability	Total
<u>Flat Benefit Plans</u>			
Number of Plans surveyed	48	197	245
Number of Employees covered	17051	194859	211910
<u>Funded Status:</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Total liabilities	\$26,620	\$1,452,109	\$1,478,729
Total assets	<u>33,086</u>	<u>719,418</u>	<u>752,504</u>
Surplus	\$ 6,466		\$ 6,466
Unfunded liability	<u>          </u>	<u>\$ 732,691</u>	<u>\$ 732,691</u>
<u>Composite Benefit Plans</u>			
Number of Plans surveyed	15	27	42
Number of Employees covered	2791	11619	14410
<u>Funded Status:</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Total liabilities	\$ 9,875	\$ 106,946	\$ 116,821
Total assets	<u>11,289</u>	<u>91,172</u>	<u>102,461</u>
Surplus	\$ 1,414		\$ 1,414
Unfunded liability	<u>          </u>	<u>\$ 15,774</u>	<u>\$ 15,774</u>





TABLE 2Assets of 943 Trusteed Pension Plans

<u>Type of Plan</u>	As shown in actuarial report*	<u>Book Value</u>	<u>Market Value</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Career Average Plans	\$ 881,334	\$ 879,146	\$ 806,297
Final Average Pay Plans	1,143,399	1,056,720	1,198,420
Flat Benefit Plans	752,504	719,834	737,250
Composite Benefit Plans	<u>102,461</u>	<u>95,112</u>	<u>98,995</u>
All Plans surveyed	<u>\$2,879,698</u>	<u>\$2,750,812</u>	<u>\$2,840,962</u>

\* The assets shown in the actuarial reports sometimes include accrued interest, receivables etc. and hence are not strictly comparable with the book values and market values of the investments.

TABLE 3Unfunded Liabilities

<u>Type of Plan</u>	<u>Initial Unfunded Liabilities</u>	<u>Experience Deficiencies</u>	<u>Total Unfunded Liabilities</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Career Average Plans	\$ 127,632	\$ 2,526	\$ 130,158
Final Average Pay Plans	227,387	14,841	242,228
Flat Benefit Plans	728,158	4,533	732,691
Composite Benefit Plans	<u>15,403</u>	<u>371</u>	<u>15,774</u>
All Plans surveyed	<u>\$1,098,580</u>	<u>\$ 22,271</u>	<u>\$1,120,851</u>









